Philanthropic Services

Gifts of Stock: An Extremely Tax-Efficient Method of Planned Giving

When faced with the choice of making a charitable gift with highly appreciated publicly traded long-term capital gain stock or the cash from the sale of the stock, choose the stock. The cost of a stock gift is substantially less and the benefits are substantially higher.

Highly appreciated long-term capital gain publicly traded securities make great "planned gifts" to private foundations, public charities, donor advised funds, and life income plans, such as charitable remainder trusts. Long-term capital gain publicly traded securities—and cash—are the only assets that entitle the donor to a charitable contribution deduction based on fair market value when donated to a private non-operating foundation.

"Planned giving" is usually defined as charitable gifts that require planning before they are made. Planning involves more than choosing an amount an individual wishes to give or a cause an individual wishes to support. The selection of what to give and to whom (public charity or private foundation) are, equally important, since both drive many of the tax benefits the donor receives.

Tax considerations for charitable gifts

Capital gains

Cash gift. Federal and state income taxes are one of the consequences of selling highly appreciated stock. At the federal level, long-term capital gains are taxed at a maximum rate of 20 percent, plus a 3.8 percent Net Investment Income Surtax. On the state level, the rate at which capital gains are taxed varies, but may equal the highest tax rate for the individual's filing status. Combined, taxes at both the federal and state levels on capital gains can easily exceed 30 percent of the net capital gain in many cases.

Stock gift. Federal capital gains tax rate: 0 percent
State income tax rate: 0 percent.

State income taxes

Of the 50 states, nine (Alaska, Florida, Nevada, New Hampshire, South Dakota, Tennessee, Texas, Washington, and Wyoming), do not impose an income tax. Another several states assess a personal income tax without offering donors a deduction or credit for their charitable contributions.

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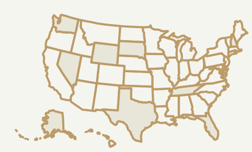

Cash gift. A sale of stock by an individual residing in a state that does not allow a deduction or credit for charitable contributions adds another layer of cost for a gift of the sales proceeds. Of the states that allow a charitable contribution deduction or a charitable contribution credit, there may still be an additional cost. Some states allow donors to deduct the federal charitable contribution deduction amount while other states limit the deduction to their own charitable contribution deduction amount, which may result in a smaller reduction in the donor's taxes.

Stock gift. A gift of the stock avoids these additional state income tax costs.

Alternative Minimum Tax

Cash gift. A large capital gain is one of the items that can trigger or increase AMT. If AMT applies, a sale of the stock may increase a donor's tax liability. The primary reason for the spike in AMT in a year of a large capital gain is the AMT exemption. As income exceeds certain levels, the AMT exemption is phased out. Capital gain is income and, as such, can reduce or eliminate an individual's AMT exemption. As the AMT exemption decreases, the donor's exposure to AMT increases. Individuals who are snared by AMT because of a large capital gain usually will not benefit in subsequent years from the Minimum Tax Credit because the credit, which can be used to reduce taxes in those subsequent years, is based on AMT that is attributable to items other than large capital gains.

Stock gift. While the above may apply as a result of the sale of the stock, a gift of the stock avoids AMT at both the federal and state level.

Itemized deductions/personal exemptions phase-outs

Cash gift. Individuals who are not subject to a phase-out of their itemized deductions (Pease Rule) and personal exemptions may face a phase-out of these deductions if the gain from the sale of the stock pushes their adjusted gross income above certain threshold levels, which may increase the individuals' marginal tax rate.

Stock gift. Gifting the stock avoids these phase-outs and the possible additional increase to the individual's marginal tax rate.

Charitable contribution deduction

Cash gift. A gift of the sales proceeds yields a lower charitable contribution deduction amount as compared to a gift of the stock because of the various taxes and costs.

Stock gift. A gift of highly appreciated long-term capital gain publicly traded stock yields a charitable contribution deduction amount based on the fair market value of the stock on the date of the gift, which provides greater tax benefits.

We're here to help

For more information on this or any other philanthropic topic, please contact your relationship manager or call us toll-free at 855-435-4108.